



Director of
Central
Intelligence

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OCPAS/CIG

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National Intelligence Daily

*Saturday
25 September 1982*

State Dept. review completed

Top Secret

CPAS NID 82-225JX

25 September 1982

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ARGENTINA: Reconstituted Junta

The reconstitution of the junta this week is unlikely to make Argentine policy more coherent and may weaken President Bignone's position.

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Comment: The return of the Navy and Air Force commanders to the junta ended the rupture that followed the Army's selection in July of General Bignone as President. The recent shakeup in the Navy and Air Force that led to new commanders for the two services helped pave the way for the junta's reunification.

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The reconstitution of the junta probably will enable the military to limit Bignone's freedom of action. The Navy and Air Force fought his selection, and strongly nationalistic elements in each service are likely to oppose him on trying to take IMF-mandated austerity measures and on other economic and political issues. Meanwhile, inflation--running at an annual rate of 600 percent for the last two months--is causing labor unrest

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INTERNATIONAL: Prospects for Increased Terrorism

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The massacre in Beirut will lead to increased terrorist attacks by the Palestinians and others against US, Israeli, and moderate Arab targets.

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US Embassies in Kuwait and Tunisia have received bomb threats. Radical Palestinian groups not part of the PLO, such as the Black June organization and the 15 May organization, are already active.

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Black June is targeting moderate Arab diplomats and 15 May is conducting a bombing campaign. On 17 September, the Lebanese Armed Revolutionary Faction bombed the vehicle of an Israeli diplomat in Paris.

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Comment: Black June and 15 May are likely to consider attacking US targets because they hold Washington responsible for the massacre. The Lebanese Armed Revolutionary Faction, which probably is comprised in part of Palestinians, presents the most dangerous near-term threat to the US. It claims credit for the murder of a US military attache and two attempts to kill US diplomats in Paris.

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PLO chief Arafat has tried to prevent the resumption of international terrorist attacks by PLO groups, but the massacre may present such a strong provocation that he will have to condone an attack against an Israeli target. Even if Arafat and other PLO leaders try to restrain more radical members, the latter may form new groups to carry out attacks.

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HUNGARY: Limited Financial Progress

A senior Hungarian banker has told the US Embassy that Hungary's reserves would be insufficient to meet immediate obligations if the Bank for International Settlements does not approve a \$300 million short-term loan next week. The country's reserves have fallen in recent weeks because of additional withdrawals by CEMA banks. The IMF team in Budapest expects the Fund to inform the BIS that progress has been made in negotiating an economic stabilization program. The BIS has insisted on such an indication from the IMF before it approves the loan request. [redacted]

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Comment: Although the banker may have exaggerated the immediacy of Hungary's financial needs, Budapest requires more funds from the BIS or the IMF to remain solvent through this year. The IMF statement and Budapest's recent actions to improve its payments position are likely to win BIS approval of the loan. Even with these emergency funds, Hungary faces more painful austerity measures if it is to avoid debt rescheduling. [redacted]

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